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Is PIK the Answer?

No Help from Exports page 10

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PERSPECTIVES

A NEW REPORT ON FARM PRODUCTION INPUTS has been added to the outlook and situation series published by the Economic Research Service. Here's a summary of the first issue of *Inputs*, published this month:

Total farm expenditures for pesticides, energy, and machinery (purchases, repairs, and maintenance) may decline to around $30 billion this year, down from 1982's $33 billion. Large participation in acreage reduction programs, including PIK, dampened early-season sales of new farm equipment, and is limiting farm use of pesticides and energy.

U.S. farmers are cutting pesticide use by an estimated 15 to 18 percent this year. Primary reason: the nearly 30% reduction in prospective corn and cotton acreage. Prices reflect the impact of large pesticide supplies and weak demand. As of mid-May, herbicide prices were down 4% from May 1982, though insecticide prices were up almost 8%, and fungicide prices were up slightly. On average, pesticide prices were up only about 3%.

Farm energy consumption will also be down substantially. Farm operations are expected to use about 2.4 to 2.5 billion gallons of gasoline, compared with 2.8 billion in 1982 and 3 billion in 1981. Farm diesel fuel consumption is forecast at 2.7 to 2.8 billion gallons, down from 3.2 billion last year. LP gas use may drop 15%-25% and electricity use 5%.

Energy prices paid by farmers may average 2%-3% below 1982 levels. Average diesel fuel prices may be down 9%-12% to about a dollar a gallon, while gasoline could retreat 3%-5% to $1.18 a gallon. However, electricity prices are likely to average 8% higher, and continuing deregulation could push natural gas prices 6%-8% higher. The increase in natural gas prices will have little effect on direct farm energy costs, since natural gas isn't a major farm fuel. However, steeper prices could squeeze the profit margins of grain elevators that use gas to dry grain, as well as impose some losses on nitrogen fertilizer producers who use natural gas as a raw material.

Farm energy expenditures will be down 14% or about $1.3 billion from 1982's $10.2 billion, reflecting reduced plantings, a cutback in irrigated acreage, and an overall decline in energy prices. Gasoline expenditures are likely to drop more than $600 million, diesel fuel about $750 million, and LP gas as much as $110 million. The anticipated cost reductions will far exceed an expected $30 million increase in farm outlays for electricity.

Farm machinery will probably be least affected by PIK. After falling drastically for several years, sales may slip only 2%-3% this year. The PIK program may even spark a turnaround in the second half of 1983, as crop prices average above year-earlier levels and farmers can no longer put off replacing old equipment. However, any substantial improvement in machinery purchases isn't expected to occur until 1984. Sales continued lower in the first quarter of this year, but dealers in many areas reported that sales picked up considerably in April and May. Several companies were offering farmers credit advances on their PIK payments.

Farm machinery prices this past March were up only 2%-3% from last fall, following a decade of stiff price increases. During the past 10 years, machinery prices tripled. Further price hikes this year will be well below 1982's 8%-9%. Because of the depressed farm machinery market of the past several years, at least two major manufacturers have experienced severe financial difficulties. All machinery producers have had to cut output, shut down facilities, and lay off workers. Plans for early 1983 called for further cutbacks, with improvement anticipated later in the year.

For a free copy of the complete report and subscription information, write to EMS Information, Room 400 GHI, USDA, Washington, D.C. 20250. Ask for the *Inputs* report. For further information on the situation and outlook for farm production inputs, contact Paul Andrilenas (202) 447-7340.

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

PIK: The Questions Keep Coming 4

Farmers have responded to the PIK program with record acreage reductions and a chorus of questions. Many of the questions are still being asked as producers, policymakers, and agricultural businessmen try to weigh PIK's impact and plan for the future. USDA economist Keith Collins tackles some of the deeper questions that go beyond the operational details of the program.

Exports Won't Lead the Way 10

One fact has become increasingly clear in this year's efforts to revive the farm economy: Exports won't lead the way. For more than a decade, exports were the major source of growth in demand for U.S. farm products. Each year brought another sales record. That pattern has ended, at least for now. Earnings from U.S. agricultural exports are expected to drop for the second year in a row, while export volume may sink to the lowest level since 1979.

America's Top Export States 12

Despite the trade slump, 13 states retained their membership in an exclusive fraternity. Each accounted for $1 billion or more in U.S. agricultural exports last year. Illinois was the leader, followed by Iowa, California, and Texas. America's top export states generate more foreign agricultural sales than most nations of the world.

Figuring Production Costs: A Fresh Look 13

How much does it cost to produce a bushel of corn or soybeans? The issue sounds simple—ask the farmer. Trouble is, most farmers' records don't accurately reflect all production costs for each commodity, and USDA's methods of estimating these costs have generated some controversy. These methods are now being examined by a special review board made up of farmers, industry and banking experts, and one USDA representative.

Farmland Values Down Again 14

Farm real estate values have sagged for the second year in a row. The latest decline of 6 percent follows a 1-percent decline reported by USDA early last year. The biggest changes were in the Corn Belt, where farmland values dropped an average of 12 percent. Only 11 states posted gains. However, there are indications that land values may now be increasing again, at least in some areas.

SPECIAL IN THIS ISSUE

1983 Reports Calendar 8

This special centerfold is your July-December calendar of situation and outlook reports of the Economic Research Service, crop and livestock reports of the Crop Reporting Board, and supply-demand estimates of the World Agricultural Outlook Board. Tear out and save this handy guide to release dates and ordering information.

PIK: The Questions Keep Coming

The smallest corn plantings since the 1870's, the smallest cotton seedings in at least 100 years, the smallest spring wheat acreage since 1972 . . . these are a few measures of this year's acreage reductions, if farmers follow through on their planting intentions.

Farmers are holding millions of acres out of production in response to the 1983 acreage reduction programs—and primarily the PIK (payment-in-kind) program—for corn, wheat, upland cotton, sorghum, and rice. In the words of USDA economist Keith Collins, these programs have provided "a jolt to the normal conduct of farm business." The effects are being felt throughout the farm economy, and beyond.

One result has been a chorus of questions as farmers, agricultural businessmen, and others try to understand what's happening and plan for the future. Their questions express concerns that go much further than just the operational details of current programs.

We talked to Collins and found him willing to tackle these questions. Collins coordinates the outlook and situation work in the crops branch of the Economic Research Service, and he has been heavily involved in USDA's continuing analysis of PIK and its impacts.

Is the PIK program a success?

Collins: To make such a judgment, you need objective criteria for grading PIK. Government costs and farm income are two critical measures. Let's consider farm income.

Besides farmers, consumers and many industries depend on efficient, profitable, and stable farm production. To a great extent, the health of our entire economy is tied to farm prosperity. This makes farm income an important barometer of PIK's success.

Because PIK will sharply reduce production, it has helped boost prices for 1982 crops. It's also likely to slightly strengthen prices for 1983 crops. Higher prices combined with lower farm production expenditures are expected to raise farm income at least $3 billion, or 15 to 20 percent, above the level we expected prior to PIK.

What would have happened without PIK? If the 1982 programs had continued, huge crop surpluses would have kept prices below the loan rates as they were last fall. Low receipts from farm sales would have accelerated defaults by farmers on production loans. There would also have been massive forfeitures of nonrecourse loans to the CCC (Commodity Credit Corporation). These developments will be averted by 1983's record acreage reductions.

Probably the only alternative to PIK would have been a huge cash diversion program. Extremely high payment rates would have been needed to get a significant drop in acreage. Even then, you couldn't get enough participation to match the PIK acreage cutbacks because of the limit on payments a grower can receive.

Farm prices usually fall at harvest, and this year will probably be no exception.

PIK's stimulus to farm income will help reduce the borrowing needs of farmers, enabling them to pay off some of their outstanding debts.

Yes, but what will happen to farm prices when PIK crops come on the market?

Collins: There is no denying that price is a risk factor for growers in PIK. The farmer has traded yield risk for price risk by accepting a guaranteed yield for not planting and giving up the loan rate as a price floor. But I'd ask you to consider several price-related factors in the first half of the 1983-crop marketing year, the period when most PIK crops will be marketed.

First, farm prices usually fall at harvest, and this year will probably be no exception. They've already started down for

CCC-477-1
(3-14-83)

U.S. DEPARTMENT OF AGRICULTURE
Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

PIK ENTITLEMENT

TO: *(Producer's Name and Address)*
Sam PIKins
R.R. No. 3
Victoria, Texas 73837
ID 123 45 6789D

FROM: *(Name and Address of County ASCS Office)*
Victoria County ASCS Office
Box 478
Victoria, Texas 73837

I. PRODUCER

Based on your compliance with the PIK Diversion Program, you are entitled to the PIK quantity of the commodity shown in Section IA. You or your assignee must present this form to the warehouseman and take title to the commodity shown below no later than the date specified in Section IB.

A. ENTITLEMENT QNTY. *(Bushels/pounds)*	B. DATE
1,483 bushels	Oct. 31, 1983

II. COMMODITY ENTITLEMENT TO BE DELIVERED

A. COMMODITY	B. QUANTITY*	C. QUALITY*	D. STORED AT	E. WHSE. CODE
Wheat	1,491	No. 2 HRW	XYZ Warehouse, Victoria, TX	8-4375 9823
		Protein 14.6		

*If quality is different from base grade *(No. 1 wheat, except No. 2 in case of soft red winter, No. 2 yellow corn, No. 2 grain sorghum, and regional grade established for rice)* quantity has been adjusted to compensate for the difference.

III. COUNTY APPROVAL
Per CDC: John Doe — DATE: May 27 1983

IV. WAREHOUSEMAN *(Endorsement Required)*
I certify that I delivered the quantity and quality of the commodity shown above at rates not in excess of those approved under the Uniform Grain Storage Agreement, Uniform Rice Storage Agreement, or PIK Handler's Agreement. (Producer must endorse and date in Section V. Retain Part 2 as proof of delivery.)
SIGNATURE | DATE

V. PRODUCER CERTIFICATION
I certify that I received the quantity and quality of the commodity shown above.
SIGNATURE | DATE

PART 1 - ORIGINAL—Producer surrender to warehouseman upon taking title to commodity. Warehouseman—Send to KCPO with invoice for storage payment.

Producers who will receive PIK wheat, corn, or sorghum from CCC inventories will be issued a PIK Entitlement before their PIK availability date. The Entitlement authorizes them to receive a specific quantity and grade at a designated warehouse. The date (part I, section B of the Entitlement) shows the last day of the 5-month PIK availability period.

wheat. In October 1982, corn prices were under $2 a bushel. They rose steadily in subsequent months and will probably average around $2.65 for the season. It's the normal seasonal pattern for prices to first fall and then rise as the crop year progresses. This seasonality provides the incentive to store crops.

Second, the CCC is paying for 5 months of storage on PIK crops going to farmers from the CCC. There is also a 7-month bonus compensation on PIK crops coming out of the farmer-owned reserve. These provisions will allow farmers to spread their sales over the months following harvest, rather than dumping all the PIK crops as soon as they're available. Also, some farmers will choose to hold PIK crops beyond the paid storage period. They'll have to pay for storage themselves, but the cost will be low if they have farm storage.

Third, some PIK crops have already been sold through forward contracting, so their effect on price has already been registered in the market.

Finally, a large percentage of the crops available for marketing will be eligible for loan because participation in 1983 farm programs is so high. Take corn. In 1982, a little more than a quarter of the crop was eligible for loan. This year, it will be well over half even if you count the PIK crops in the total. So, compared with the last harvest, there is a greater chance that the loan program will limit price declines during and after harvest.

Can PIK crops be marketed like other crops?

Collins: Yes, the producer can take delivery of the PIK crops or sell them through the warehouse where they're held. And the same methods used to market harvested crops can also be used for PIK crops.

These include selling in the cash market as soon as the PIK crops are available, selling anytime after the normal harvest date, forward contracting before the PIK crops are available, and hedging in the futures market. The one method you can't use is the regular 9-month CCC loan, because PIK crops aren't eligible.

Aren't there some additional complications in forward contracting PIK crops?

Collins: True, if your PIK crop payment is to come from the CCC or 1983 loans. For instance, this applies to between 50 and 60 percent of the PIK corn and wheat.

If you are to receive CCC crops, your PIK entitlement form will show you the exact quantity, quality, and location of your PIK crops. However, until you receive the entitlement, all you know is the quantity stated on your original PIK contract. This quantity may change on the entitlement because it may specify a different quality. So, quantity will be adjusted to compensate. Lower quality will be offset by greater quantity.

Another problem is the location of the PIK crops. Grain may not be at your country elevator, but it should at least be at the closest terminal elevator. Rice and cotton could be almost anywhere in the country because these commodities will not be repositioned into PIK-deficit areas.

These uncertainties do not necessarily make it more difficult to find a buyer for forward contracting on the basis of a PIK contract. However, the buyer may demand a price discount for accepting any quantity, quality, and location risk. If the CCC didn't face such a complex task of acquiring and repositioning the PIK crops, perhaps the entitlement letters could have gone out soon after the PIK signup, and these uncertainty problems could have been reduced. As it is, the letters will likely be sent out closer to harvesting than to planting.

Earlier, you listed two critical measures in judging the PIK program. We haven't yet looked at costs. Isn't the PIK program very expensive?

Collins: No question, PIK is expensive. It's a price paid to aid an essential industry that's badly out of balance. But

"It's a price paid to aid an essential industry that's badly out of balance."

compared with a continuation of 1982 policies, PIK offers some savings. Higher crop prices and lower crop acreage under PIK will reduce government deficiency and diversion payments to producers. Storage payments on CCC and farmer-owned reserve crops used for PIK will be eliminated.

On the other hand, there will be added expenditures to cover CCC storage costs for PIK crops for the first 5 months of the marketing year—and to meet the 7-month bonus compensation payment made on PIK crops coming from the farmer-owned reserve. Also, there will be additional transportation costs to relocate PIK grain.

On balance, PIK seems to be a clear winner compared with a continuation of earlier policies. How it stacks up against alternative policies or new legislation that Congress might have passed, but didn't, no one really knows.

Okay, but you're talking only about direct expenditures. Isn't the government also giving away its assets (the stocks of CCC crops) through the PIK program?

Collins: I was coming to that. It's an important point. Valued at loan rates, crop payments to 1983 PIK program participants will amount to $8-$9 billion. There were additional crops disbursed in the bid "PIK-for-PIK" program, which was used to acquire needed crops for PIK. But don't be too quick to add this total to the cost of the program.

Without the PIK acreage reductions, low farm prices would have assured huge CCC takeovers of crops under loan. These forfeited crops would have had to be stored at government expense because minimum government selling prices would have been well above market prices.

Also, there would have been an increase in applications for new CCC loans and a sharp rise in the interest obligation the CCC would owe to the Treasury on the money borrowed to finance loans to producers. In addition, there would have been losses caused by quality deterioration of the stored commodities.

All these costs are generally ignored by analysts who contend that the value of PIK crops is a loss to the government. And there's another point to be made here. Although the $8-$9 billion worth of PIK crops is a transfer to farmers, you can't conclude that it represents the loss in receipts that the CCC would have earned by selling those assets. Had the government taken over these crops, they wouldn't become revenues until the CCC could sell them.

Without PIK and with normal weather and trend growth in demand, low prices would continue into the foreseeable future. There's no telling when these assets could be sold or what the selling price might be. Given our history of export programs in earlier surplus years, we may even have ended up donating large quantities overseas. And the interest, storage costs, storage losses, and increases in other program payments would have to be deducted from any sales receipts to get a true measure of the net receipts forgone by the CCC.

Okay, let's say that the PIK program is a reasonable response to a current problem. The fact remains that the business of agriculture is production, and that's as it should be. Does PIK's apparent success mean that it will become a permanent fixture of farm policy?

Collins: No one wants to see massive government acreage programs become a long-run policy, and PIK is not designed as a long-run policy tool. Because it is so successful in encouraging acreage reductions and reducing stocks, it surely will be considered in the future when markets are way out of balance, as they are now. The whole-base bid was especially successful, and a bid is cheaper for the government than a fixed offer rate. A "bid" PIK may be an alternative we can offer future policymakers.

Plantings Under PIK

Farmers have reported sharp cutbacks in 1983 plantings—a key measure of PIK's impact.

USDA's May report on prospective plantings, based on a late April survey of growers' intentions, showed:

- Corn plantings at 58.8 million acres, down 28 percent from last year's 81.9 million and the smallest plantings since the 1870's.
- Sorghum plantings at 12.0 million acres, down 26 percent from 1982's 16.1 million and the smallest plantings since 1949.
- Spring wheat seedings (including durum wheat) at 14.4 million acres, down 31 percent from last year's 20.9 million and the smallest planted area since 1972.
- Cotton plantings at 8.1 million acres, down 28 percent from 1982's 11.3 million and the smallest seedings in at least 100 years.
- Rice area at 2.2 million acres, down 34 percent from last year's 3.3 million and the smallest plantings since 1972.

Even soybeans, which aren't included in the acreage reduction programs, will be affected. Reasons: less double-cropping of soybeans with winter wheat because of the large PIK wheat signup, and acreage shifts out of soybeans because of PIK-related price gains for corn and cotton. Soybean plantings will decline 9 percent to 65.8 million acres if farmers follow through on their reported intentions.

Prospective Plantings of PIK Program Crops

	Planted acreage	
	1982	1983[1]
	thousand acres	
Corn	81,909	58,812
Sorghum	16,144	12,010
Winter wheat	66,351	62,981
Spring wheat	20,926	14,388
Cotton	11,340	8,125
Rice	3,285	2,170

[1]All figures except winter wheat seedings are based on USDA's late April survey of growers' planting intentions.

The decline for corn, however, will be much greater, and soybean plantings are expected to exceed corn plantings for the first time in U.S. history.

This year's production declines will also be significant, although they won't necessarily match the acreage reductions. Winter wheat will be an exception because it was planted last fall before the PIK program was announced. Acreage was down only 5 percent, but production is currently expected to drop 10 percent from 1982's record level as many farmers have elected to hay, graze, or otherwise destroy their wheat stands in order to participate in PIK.

For the other program crops, yields are the big question. Soil moisture is excellent in most locations—though excessive in some—and the acreage reduction programs took millions of lower yielding acres out of production. If good weather continues, average yields may reach new highs.

However, PIK cannot be used in years when stocks are moderately low because the government would have no CCC stocks to use and few outstanding CCC loans to liquidate in order to meet any payment-in-kind obligations.

The cost issue is also a factor that will determine PIK's future. Say, over the next few years, export demand surges and U.S. yields are poor. In that case, those CCC assets distributed through the PIK program are more likely to be viewed as a direct government cost, and PIK will not be remembered so favorably.

What about a PIK program for 1984 crops?

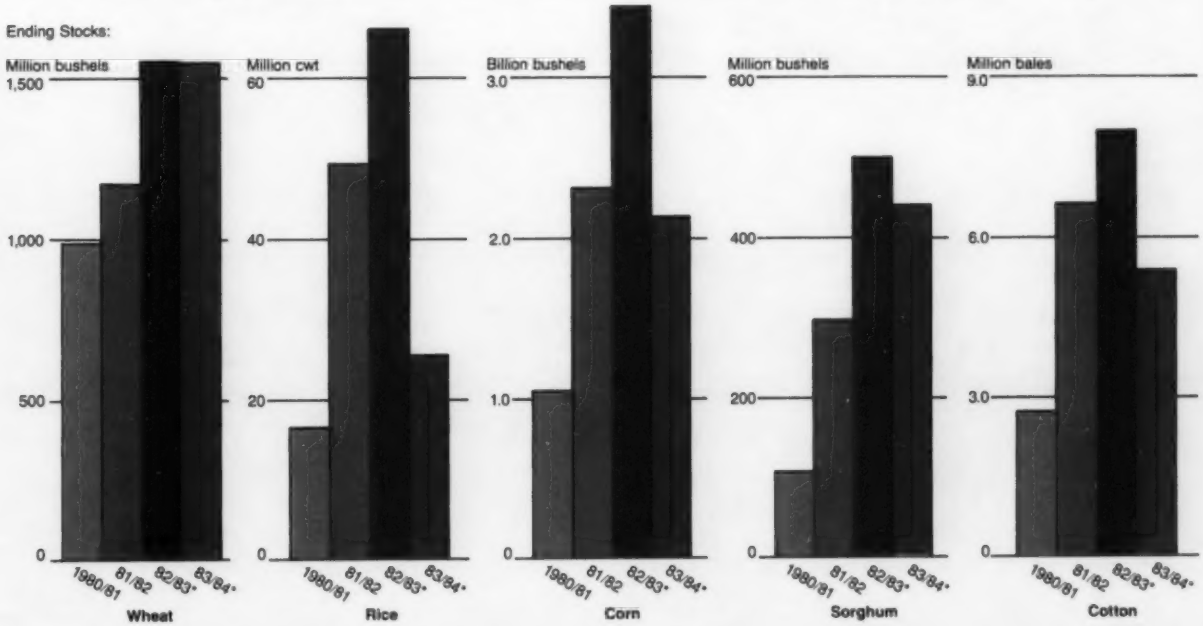
Collins: Secretary Block has said that PIK will probably be used again in 1984. No final decisions have yet been made. USDA's wheat program must be announced by August 15, but we expect a decision—and an announcement—by July 1. Record winter wheat yields are likely this year, with huge stocks expected to continue. For these reasons, a large acreage control program is in prospect.

Announcements on programs for next year's corn, cotton, and other spring-planted crops are expected this fall. A decision on whether to have a PIK program for these crops will depend on what happens in markets this summer and early fall. Sudden surges in exports or crop failures at home could rule out a 1984 PIK program. On the other hand, average weather and continued sluggishness in export sales would again leave us with large stocks of corn, sorghum, and cotton. Rice would likely be in much better balance.

Program decisions generally aren't made any earlier than they have to be. They're difficult enough. As is, they have to be issued far in advance to give growers ample time to develop cropping plans. In other words, policymakers must decide on 1984 programs before anyone can fully gauge the market effects of 1983 programs. That's where crop surveys and economic forecasts come in, but we have no crystal ball.

Because the process is so complex, I wouldn't even try to guess the extent to which PIK might be used in 1984. PIK issues are still being analyzed, such as what crops might be covered, what percentage of base acreage would be eligible, or what the offer rates would be. In fact, it's unlikely anyone will be able to say anything for sure up until the day the programs are announced by the Secretary. □

Farmers' Response to the 1983 Farm Programs Is Expected To Halt or Reverse Two Years of Sharp Stocks Buildups



*Based on USDA's mid-May supply-demand projections. The 1983/84 projections are highly tentative this early in the season.

1983 Reports Calendar July-December

JULY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1 Egg Products Poultry Slaughter Dairy Products
4	5 Livestock & Poultry Noncitrus Fruits & Nuts—Midyear Supplement	6 Celery	7 Fruit	8 Farm Real Estate Mink
11 Turkey Hatchery	12 Crop Production	13 World Agricultural Supply & Demand	14 Vegetables	15
18 Oil Crops Cattle on Feed Milk Production	19	20 Farm Production Expenditures, 1982 Catfish	21 Cattle Cold Storage	22 Livestock Slaughter Eggs, Chickens, & Turkeys
25	26 Wheat	27	28	29 Vegetables Agricultural Prices

AUGUST

MONDAY	TUESDAY	WEDNESDAY
1 Egg Products	2 Feed Poultry Slaughter	3 Agricultural Outlook
8	9	10
15 Cattle on Feed	16 Agricultural Exports Cranberries	17
22 Catfish	23 World Agriculture Farm Labor Eggs, Chickens, & Turkeys	24
29	30	31 Agricultural Outlook Egg Products Agricultural Prices

OCTOBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 Poultry Slaughter Dairy Products	4 Cherry Utilization	5 Celery	6	7 Vegetables
10	11	12 Crop Production	13 World Agricultural Supply & Demand Turkey Hatchery	14 Milk Production
17	18 Cattle on Feed	19	20 Cold Storage Catfish	21 Livestock Slaughter Eggs, Chickens, & Turkeys
24 Oil Crops Grain Stocks Rice Stocks	25 World Agricultural Supply & Demand	26	27	28 Vegetables
31 Outlook Conference Agricultural Exports Egg Products Agricultural Prices				

NOVEMBER

MONDAY	TUESDAY	WEDNESDAY
	1 Outlook Conference Poultry Slaughter	2 Outlook Conference
7 Agricultural Outlook	8	9 Fruit
14 World Agricultural Supply & Demand	15 Milk Production	16 Cattle on Feed
21	22 Eggs, Chickens, & Turkeys Cold Storage	23 Cotton & Wool
28	29 World Agriculture Commercial Fertilizers, Consumption	30 Agricultural Outlook Agricultural Prices

Titles of Outlook and Situation reports of the Economic Research Service are printed in color. Summaries of reports are released at 3 p.m. on the dates shown. Copies of complete reports are off press in a week to 10 days. The ***World Agricultural Supply and Demand Estimates*** *reports, issued by the World Agricultural Outlook Board, are also printed in color. These reports are released to the press in their entirety on the dates shown. To request subscription information on any of these reports, write: EMS Information, Room 440-GHI Bldg., USDA, Washington, D.C. 20250.*

Titles of reports issued by the Crop Reporting Board of the Statistical Reporting Service are printed in black. Complete reports are released—most at 3 p.m.—on the dates shown. To request subscription information, write: Crop Reporting Board, Room 5829 South Bldg., USDA, Washington, D.C. 20250.

SEPTEMBER

...NESDAY	THURSDAY	FRIDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
...ltural ...ook	4 **Livestock & Poultry** *Dairy Products*	5 *Celery* *Vegetables*				1 *Poultry Slaughter*	2 *Dairy Products*
	11 *Crop Production*	12 **World Agricultural Supply & Demand** *Mushrooms* *Milk Production* *Turkey Hatchery*	5	6	7 *Fruit* *Celery*	8	9 **Sugar & Sweeteners** *Vegetables*
	18	19 *Rice Stocks* *Livestock Slaughter* *Cold Storage*	12 *Crop Production*	13 **World Agricultural Supply & Demand** *Peanut Stocks & Processing* *Turkey Hatchery*	14 *Tobacco* *Cattle on Feed* *Milk Production*	15 *Dairy*	16 *Hop Stocks*
	25	26 **Cotton & Wool**	19 *Catfish*	20 *Soybean Stocks* *Hogs & Pigs*	21	22 *Rice* *Eggs, Chickens, & Turkeys* *Cold Storage* *Livestock Slaughter*	23 *Citrus Fruits*
...ltural ...ook ...roducts ...ltural Prices			26	27	28 *Potatoes & Sweet-potatoes*	29 **Livestock & Poultry**	30 **Agricultural Outlook** *Egg Products* *Agricultural Prices*

DECEMBER

...NESDAY	THURSDAY	FRIDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
...k Confer- ...	3 **Outlook Conference**	4 *Celery* *Dairy Products*				1 **Livestock & Poultry**	2 *Egg Products* *Poultry Slaughter* *Dairy Products*
	10 *Crop Production* *Turkey Hatchery*	11	5	6 **Sugar & Sweeteners** *Celery*	7	8	9
...n Feed	17 **Wheat**	18 **Feed** *Catfish*	12 *Crop Production* *Turkey Hatchery*	13 **World Agricultural Supply & Demand** *Milk Production*	14 **Dairy** *Potato Stocks* *Cattle on Feed*	15 *Tobacco*	16 **Agricultural Finance**
... & Wool	24	25 *Livestock Slaughter*	19 **Fertilizer**	20 *Catfish*	21 *Eggs, Chickens, & Turkeys* *Cold Storage*	22 *Small Grains* *Hogs & Pigs* *Livestock Slaughter*	23
...ltural ...ook ...ltural Prices			26	27 *Vegetables, Preliminary*	28	29	30 *Egg Products* *Agricultural Prices*

Exports Won't Lead the Way

One fact has become increasingly clear in this year's efforts to help revive the farm economy: Exports won't lead the way.

Until recently, exports were the major source of growth in demand for U.S. farm products. If sales had continued to expand at the rate of the 1970's, export earnings would break the $50 billion mark this year, U.S. stock levels would be much lower, and farm prices higher.

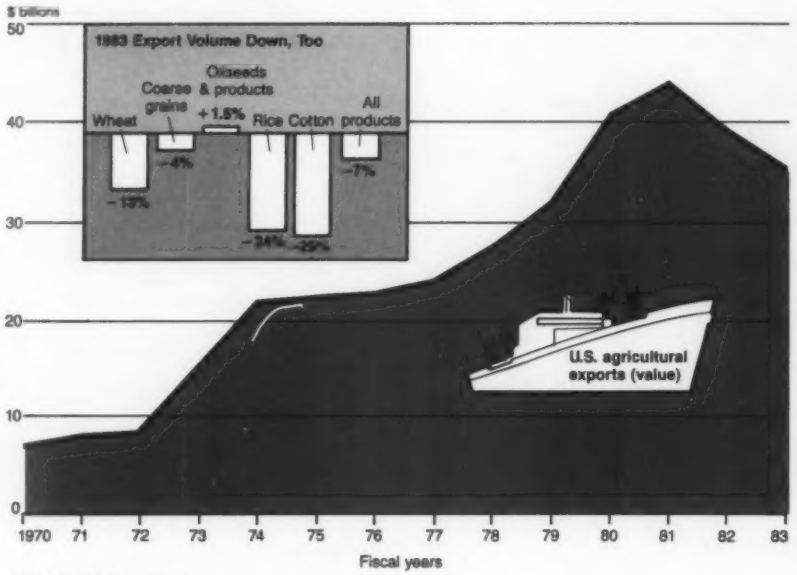
Instead, U.S. agricultural exports are expected to bring in only about $35 billion in the current fiscal year, which ends this September. That's down $4.1 billion from 1982 and nearly $9 billion below record-high 1981 earnings, notes economist Sally Byrne of USDA's Economic Research Service. Export volume, pegged at 148 million metric tons, will sink to the lowest level since fiscal 1979.

According to Byrne and her colleagues, several factors are behind the slump in U.S. exports. It took a combination of these factors throughout much of the world to prevent underlying population pressures—and pressures for improved diets—from stimulating greater demand for U.S. farm products.

Among the reasons for falling U.S. export sales, trade analysts emphasize the following:

- Economic recession and depressed consumer incomes in major markets. Without growth in buying power, growth in world population doesn't translate into expanded import demand for food grains, livestock feed, and other products.
- The continued strength of the U.S. dollar in exchange markets, which inflates prices of U.S. goods in terms of many foreign currencies. As a result, low U.S. crop prices depress our sales value totals without providing an offsetting incentive for foreign customers to increase the volume of their purchases.
- Greater competition from several other exporting nations seeking outlets for, and income from, their excess farm production. Tighter world markets and expanded production abroad have heightened trade conflicts in the last few years.
- Increased production in several importing nations. Some major customers, such as China, have managed to reduce their import needs in the last year or two by boosting domestic output.
- High debt levels, internal economic problems, and reduced export earnings in several large markets in Eastern Europe, Latin America, and Africa. With limited foreign exchange, heavy interest payments on current debt, and restrictions on the availability of new credit, such nations as Poland, Venezuela, and Nigeria have taken steps to trim their farm imports.
- Erosion of the U.S. share of the Soviet market. The United States may capture only about 20 percent of the Soviet grain market this year, down from a high of around 70 percent before the U.S. embargo.

Agricultural Export Earnings To Decline for the Second Year in a Row



1982 estimated, 1983 projected.

Throughout the 1970's and into the early 1980's, each year brought another U.S. export sales record as if there were no end to the world's growing appetite for the products of America's farms.

In such a bullish atmosphere, all-out production was usually encouraged and little attention was given to concerns about America's increasing dependence on continued expansion in world demand.

The consequences of that dependence have finally hit home as U.S. farm export value is now expected to decline for the second year in a row and export volume for the third consecutive year.

No Rapid Improvement

Many of the conditions responsible for the decline in U.S. agricultural exports will continue to depress trade totals, at least into next year.

Early season projections indicate that total foreign grain production may rise about 3 percent this year. Credit conditions remain fairly tight, and interest rates haven't eased significantly.

The world economy is showing preliminary signs of emerging from recession, but the pace of recovery is likely to be slow. In most industrialized nations, high levels of unemployment are expected to persist for some time. The recovery, say the analysts, is apt to be too weak to provide much of a boost to U.S. exports.

While the oil exporters also anticipate a hard year, economic prospects may be brighter for the developing nations that export metals, agricultural raw materials, and consumer appliances and electronics. Foreign exchange earnings should be rising—a small plus for the U.S. export outlook.

Another potentially positive development is the resumption of negotiations for a new long-term trade agreement with the USSR. This has raised expectations that the United States may eventually recapture a larger share of the Soviet market.

So far, however, none of the encouraging signs holds much promise for the immediate future.

Impact on Exports

Given the less than optimistic outlook, the second half of the year isn't likely to make up for a very weak first half. In the first 7 months of fiscal 1983 (October 1982 to April 1983), export value was down about $4.1 billion compared with the same period a year earlier. Analysts expect PIK-related price increases for U.S. commodities to help keep that gap from getting any wider during the rest of the year.

Export volume was down 8.6 million tons in the first 7 months. For the remaining months, the forecasts indicate that volume may run just below last summer's disappointing level.

Volume, in fact, is the key factor behind this year's export decline. Last year, lower U.S. commodity prices accounted for most of the decline in export sales. This year, it's the reverse. About two-thirds of the drop in U.S. export earnings will be traced to lower sales volume, and one-third to lower unit values for our export products.

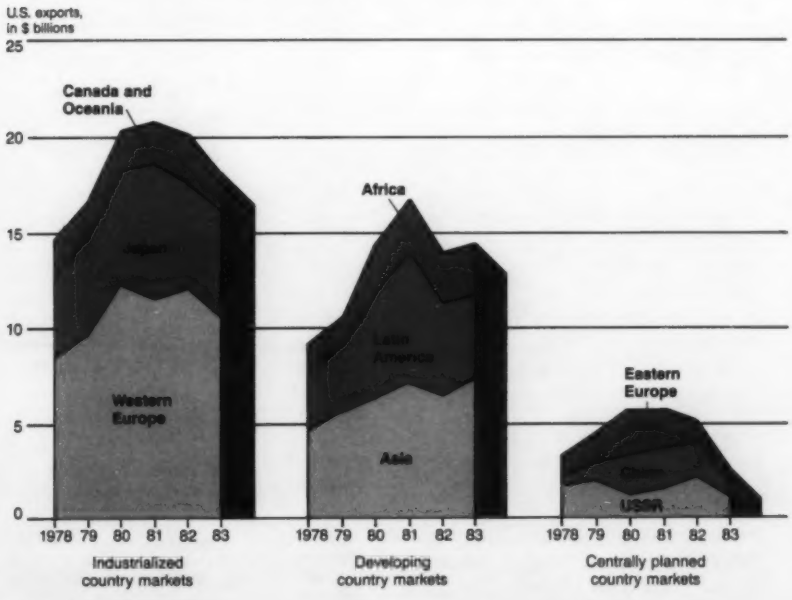
In terms of markets, the biggest sales declines are coming from the centrally planned nations even though, as a group, they take a much smaller share of U.S. exports than either the developed or the developing nations. Together, the Soviet Union, China, and Eastern Europe are expected to account for about 60 percent of the projected decline in total U.S. export value.

Since the U.S. embargo, large shares of the Soviet market have gone to other suppliers, notably Argentina, Australia, Canada, and the European Community. In the case of China, the chief factor, say USDA analysts, is not the textile trade dispute, but the fact that China has harvested a series of good crops. U.S. sales are put at $800 million, down from $1.8 billion in fiscal 1982 and a record $2.2 billion in 1981.

In terms of commodities, grain sales will plunge the most. Of the projected 10-million-ton drop in total export volume, wheat is expected to account for 6 to 7 million tons—largely because of smaller sales to the Soviet Union and China. □

[*Based on information from Sally Breedlove Byrne and Steve Milmoe of the International Economics Division, Economic Research Service.*]

Analysts Expect Increased Export Sales to Developing Nations, But Reduced Sales to Industrialized and Centrally Planned Markets



1982 estimated, 1983 projected.

America's Top Export States

Despite last year's trade slump, 13 states retained their membership in an exclusive fraternity: Each accounted for $1 billion or more in U.S. agricultural exports.

Illinois was the leader, capturing the top spot with exports valued at $3.3 billion, according to economist Steve Milmoe of USDA's Economic Research Service. His figures are estimates based on state shares of farm production for exported commodities.

Ranking second was Iowa, with slightly more than $3 billion in farm product exports. Illinois has held the number one position in 9 of the last 10 years, but was unseated by Iowa in 1981.

"In the 1982 rankings, Illinois was first in soybean and feed grain sales, followed closely by Iowa," Milmoe says. "California, the third-ranking state overall, placed first in fruits, vegetables, and tree nuts; second in cotton and rice exports."

What about fourth-ranked Texas? "Texas led all other states in exports of cotton, cattle hides, and tallow, and it placed second in live animals and meat. Texas was also a major exporter of wheat and rice," Milmoe says.

Among the other leaders, Kansas ranked first in wheat export sales, North Carolina in tobacco, Arkansas in rice and poultry, and North Dakota in sunflower seeds and oil.

For most of the billion-dollar export states, sales value was down in 1982—the same pattern that prevailed for the nation as a whole. U.S. agricultural exports slipped to $39.1 billion in fiscal 1982, off 11 percent from the previous year's record.

Of the top 13 states, only four—Missouri, North Dakota, Arkansas, and North Carolina—recorded higher export values in 1982. Their success catapulted them over Ohio, which was bumped from its 9th-ranked spot in 1981 to 13th last year.

Ohio still made the list, but one state didn't. In 1981, Washington qualified as number 14 in the billion-dollar rankings, with exports estimated at $1.04 billion. In fiscal 1982, its exports dropped to $946 million.

Although state totals weren't as high as they might have been given a stronger world economy, they still look very impressive when stacked up against export figures recorded around the world.

In fact, says economist Art Mackie, America's top export states generate more foreign agricultural sales than 75-80 percent of the countries of the world. Only 35 nations out of around 170 had agricultural exports valued at a billion dollars or more in 1981, the latest year for which world figures are available.

Our top two export states of 1981—Iowa and Illinois—each had more than $3.5 billion in agricultural exports. Mackie points out that they were joined by only 15 of the world's nations, counting the United States. Not a single country in Africa and only one nation in Asia exported more than $3.5 billion worth of agricultural exports that year. □

[Based on information provided by economists Steve Milmoe and Art Mackie of the International Economics Division, Economic Research Service.]

Top Ranking Nations

With so many billion-dollar export states, how does America rank among the world's major exporting nations? Number one, by far.

The U.S. figure exceeds the combined value of all farm products shipped by the next three largest agricultural exporters—France, the Netherlands, and West Germany. Moreover, a considerable proportion of the exports of both the Netherlands and West Germany do not originate on their farms. Their totals are inflated by the agricultural goods that they transship to purchasing nations from other producing nations, including the United States.

Thirteen States Were Billion-Dollar Agricultural Exporters in Fiscal 1982

	Estimated value of agricultural exports[1]	
	1981	1982
	$billions	
Illinois	3.58	3.31
Iowa	3.74	3.03
California	3.44	2.85
Texas	2.66	2.57
Minnesota	2.29	1.88
Nebraska	2.10	1.81
Kansas	2.19	1.63
Indiana	2.03	1.56
Missouri	1.33	1.40
No. Dakota	1.17	1.33
Arkansas	1.20	1.28
No. Carolina	1.21	1.25
Ohio	1.63	1.05

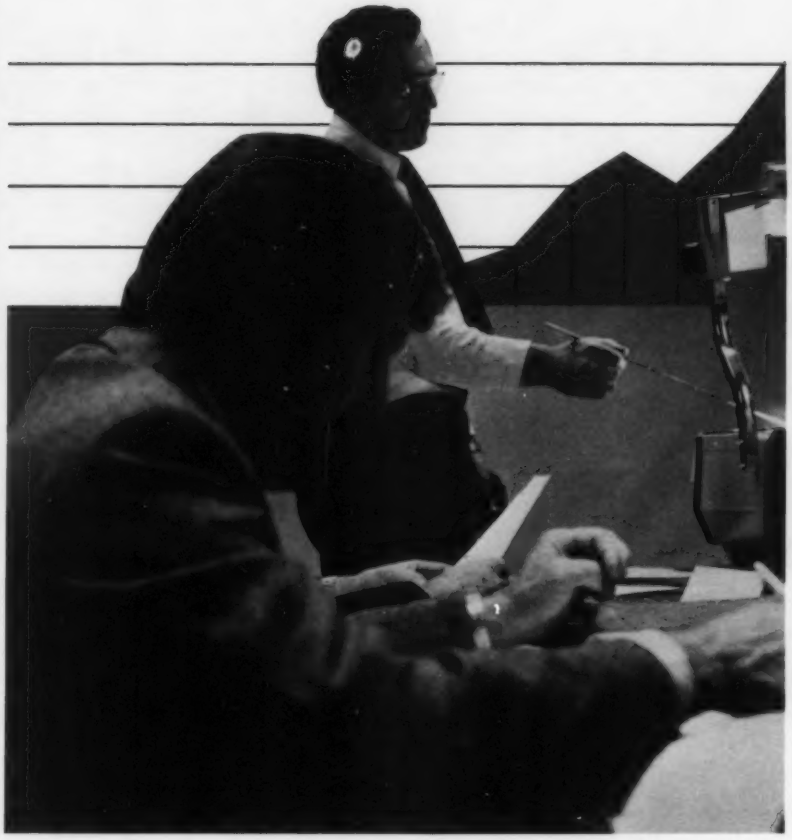
[1]USDA estimates based on state shares of U.S. farm production for commodities exported during fiscal years 1981 and 1982.

Top 15 Nations in Agricultural Exports

	Export value[1] 1981
	$billions
United States	45.05
France	17.86
Netherlands	15.89
West Germany	10.59
Brazil	9.77
Australia	9.40
Britain	8.18
Canada	7.83
Argentina	6.32
Belgium-Luxembourg	6.29
Italy	5.84
Denmark	5.07
Cuba	4.73
Thailand	3.97
New Zealand	3.64

Source: Food and Agriculture Organization of the United Nations. [1]Figures are for calendar year 1981, so they aren't strictly comparable with October-September fiscal year figures in other table.

Figuring Production Costs: A Fresh Look



Board member Oren Childers, a Georgia farmer, studies crop budget material as ERS economist Ronald Krenz explains how crop budgets are prepared.

A special review board is now examining the methods used to estimate costs of production.

How much does it cost a farmer to produce a bushel of corn or soybeans? The issue sounds simple enough: Just ask the farmer.

"Most farmers, however, don't keep records that can accurately reflect all production costs for each individual crop," says Milton Ericksen, an Economic Research Service economist. "For instance, machinery purchases and maintenance are not generally separated between the corn and soybean production on a farmer's balance sheet."

For just this reason, USDA has developed complex methods of estimating production costs for crops and livestock, but controversy has often surrounded the process.

What constitutes a valid cost? What components of the cost should be included in estimates? Should the cost for a specific item be based on its purchase price, depreciated value, replacement value, or opportunity cost? These are big concerns to farmers because policymakers consider cost of production information when formulating farm programs.

A special review board, mandated by the Food and Agriculture Act of 1981, is now examining the methods used by USDA to estimate the cost of producing major farm commodities.

The cost of production estimates begin with data from on-farm surveys collected by USDA's Statistical Reporting Service. The data are supplemented with engineering data when estimating machinery and equipment cost items. Area budgets, which include costs for input items used in the production process, are used to develop weighted average costs for regions and for the United States.

This information is reported to Congress and used by USDA for research as well as program and policy analysis. Agricultural colleges, other institutions, and agribusinesses use the information for extension and research programs and for planning purposes.

The board is also charged with reviewing the adequacy of parity formulas. Parity formulas establish a relationship between purchasing power and units of production.

The term "parity" was first introduced in the Agricultural Adjustment Act of 1938, although the concept had been discussed beginning in the 1920's. The 1938 formula for calculating a parity price was followed until 1949 when the so-called "new formula" was introduced. Parity prices continue to be reported today.

The board's 11 members—seven farmers, three industry and banking experts, and one USDA representative—first met in February to begin their review of USDA's current methods for determining production costs and parity prices.

William Turrentine, a wheat, sorghum, and alfalfa farmer from Garden City, Kansas, is the board's chairman. George Hoffman, associate administrator of the Economic Research Service, serves as USDA's representative. The board will submit its next report to the Secretary of Agriculture and Congress in early 1984. □

Farmland Values Down Again

Farm real estate values have slumped for the second year in a row. The latest decline of 6 percent for the year ending on April 1, 1983, follows a 1-percent decline between February 1981 and April 1982.

The average acre of U.S. farmland is now worth about $744, compared with $789 in spring 1982 and $795 in early 1981.

"The largest declines were again in the Corn Belt," says USDA economist Charles Barnard of the Economic Research Service. "Farmland values in Indiana, Iowa, and Missouri were all down 13 percent. For the Corn Belt as a whole, values fell an average of 12 percent, the most of any region."

According to Barnard, only 11 states posted gains in farmland values: Texas, California, Virginia, North Carolina, Florida, and six New England states.

Before 1981, U.S. farmland values were on a steady upward path—up 9 percent in 1980 and an average increase of 13 percent a year during the 1970's. In the last 30 years, the only previous decline was in 1953.

"We're now seeing the impact of a sustained period of high interest rates and low farm income on farmland values," says Barnard. "However, that doesn't necessarily mean another downturn in farm real estate values this year."

He explains that farmland prices tend to reflect expectations for the farm sector over the year or years ahead. These longer term expectations may be improving, he says.

"There are some indications that land values may now be increasing again, at least in parts of the Corn Belt. Our latest survey of land values covers a 12-month period, so any new developments since last fall could be hidden in the annual average. We'll have to wait and see."

A turnaround in land values would be good news for many farmers whose borrowing power has shrunk along with the value of their real estate collateral. This loss in borrowing power becomes even more meaningful when inflation is taken into account. Inflation has further eroded the purchasing power represented by farmland.

"Inflation-adjusted values of U.S. farmland have fallen for 3 straight years, not just 2 years," Barnard says. He points out that 1980's 9-percent rise in farmland values was more than matched by that year's inflation rate. "Real farmland values are now 18 percent below 1980 levels," he says.

The biggest loser is likely to be the farmer who purchased land in the last few years at a high interest rate. In general, the longer term landowners—and that's the majority of farmers by far—have accumulated enough real land value gains to absorb recent declines and still remain well ahead of inflation.

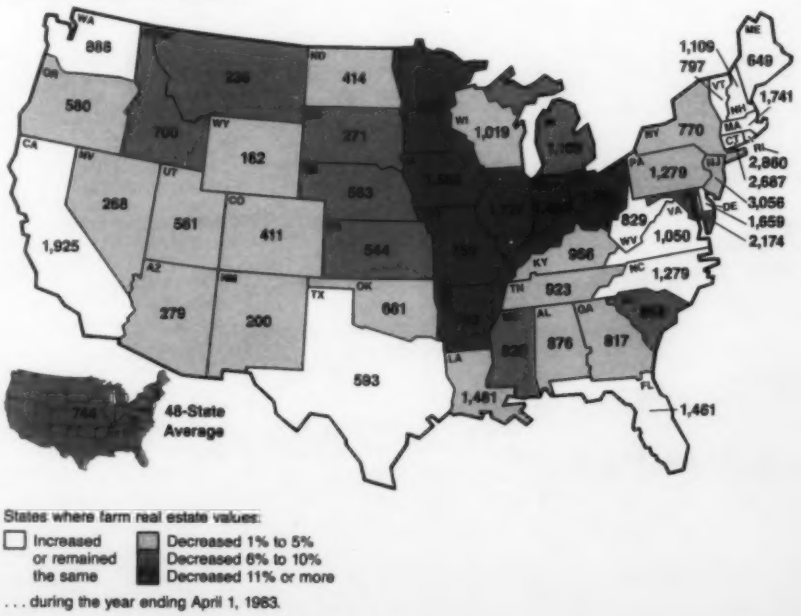
One group that might seem to welcome a drop in farmland values is the renters of farmland. State-by-state returns are mixed and most changes are relatively small, but cash rents on farmland have dropped overall. Good news for renters?

According to Barnard, falling rents may reflect a lower income potential of the land, so renters aren't necessarily better off. He also notes that rents have not fallen nearly as much as land values.

Rents now represent a higher proportion of cropland values than they did a year or two ago. Since rents are linked closely to income, he says, the higher rent-to-value ratio may indicate that farmland prices are now more realistic than they had been in terms of the income potential of farmland. □

[*Based on information provided by Charles Barnard and John Jones of the Natural Resource Economics Division, Economic Research Service.*]

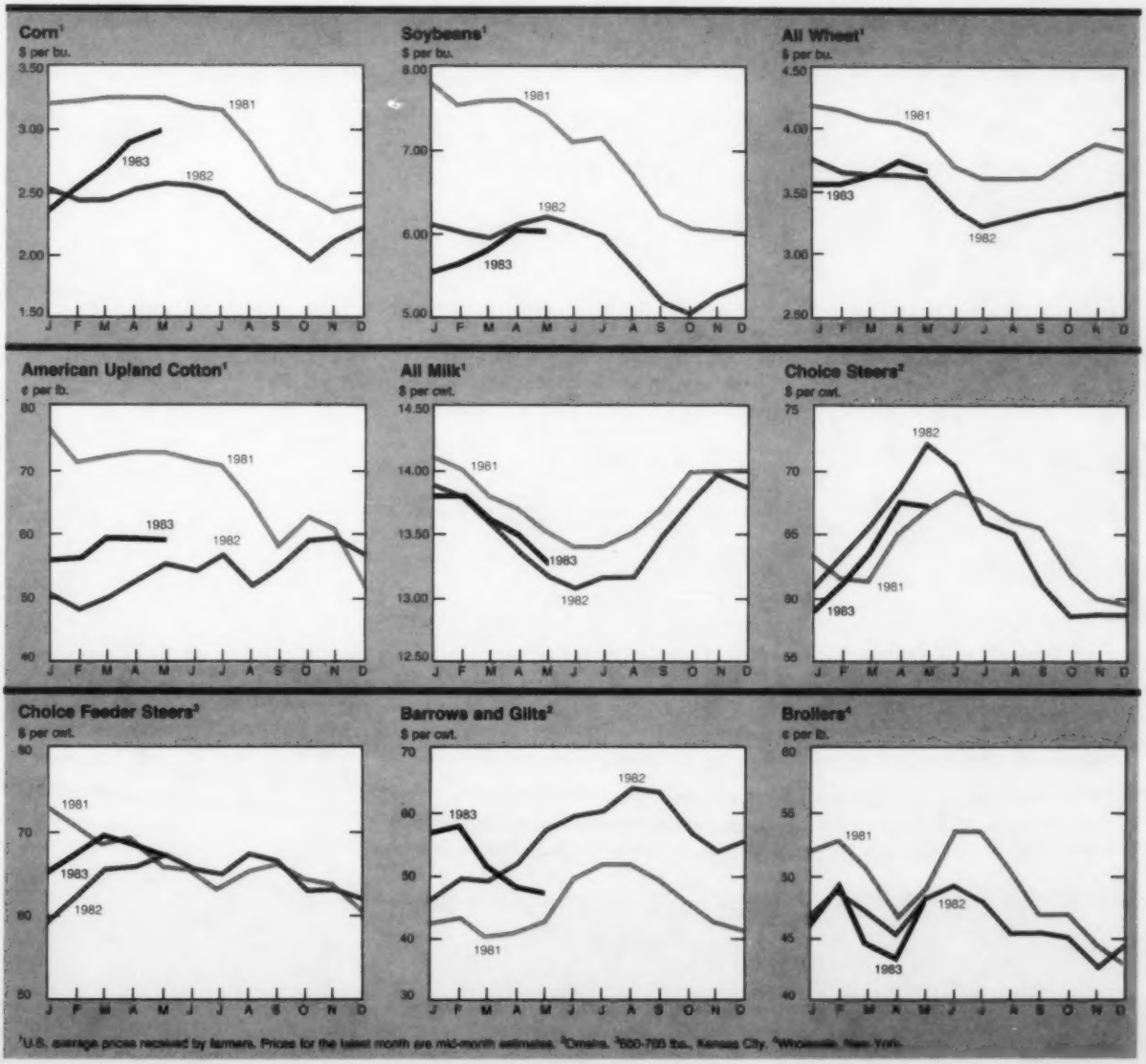
Farm Real Estate Values Decline in 34 States



FARMLINE TRENDS

Monthly Price Monitor

USDA's index of farm prices rose again in May for the fifth month in a row, but the overall gain was less than 1%. Corn was up, while soybean, wheat, and cotton prices were down slightly from April. Only soybean prices remained below year-earlier levels. In the livestock area, milk prices dropped for the third straight month, while Choice steers held above $67 per cwt. Prices were down for feeder steers and barrows and gilts—barrow and gilt prices hit the lowest level since January 1982. Broiler prices jumped above 48 cents a pound for the first time since February.



[1]U.S. average prices received by farmers. Prices for the latest month are mid-month estimates. [2]Omaha. [3]550-700 lbs., Kansas City. [4]Wholesale, New York.

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